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Poultry and Products Annual

Chinese Chicken Meat Production Continues to Recover

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Report Highlights:

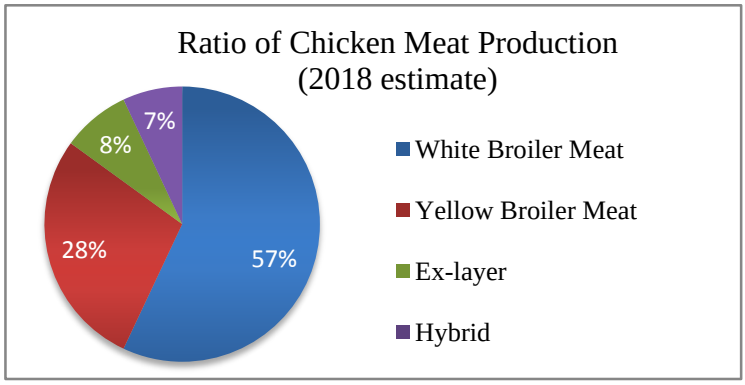
China's production of chicken meat will continue to recover in 2019, growing 3 percent to 12 million metric tons due to cumulative increases in white-feather, yellow-feather, and hybrid broiler production. Although China's numerous avian influenza bans on foreign suppliers has created a shortage of new genetic material for its poultry flocks, China has compensated by widely using forced molting, importing more grandparent stock from New Zealand, and developing a domestic great grandparent breeding industry. Despite increased production, consumer demand for chicken meat will remain weak due to the plethora of substitute proteins on the market, growing less than 3 percent and still lagging behind pre-H7N9 outbreak levels.

Note Regarding Reporting Change:

This report provides chicken meat estimates and forecasts for 2017-2019. The prior broiler meat series has been discontinued and will not be revised or updated in the future. Official USDA data will be available via the PSD database (http://www.fas.usda.gov/psdonline) on October 11, 2018. The October data release will include a historical chicken meat series back to 1999. The broiler meat series will terminate with 2016 data. Chicken meat is defined as meat of domestic fowl (Gallus gallus/Gallus domesticus) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.

Chicken Meat Production:

Post forecasts 2019 production will increase to 12 million metric tons (MMT), a 3 percent year-on-year increase from 2018. This increase is due to cumulative small increases in white-feather broiler, yellow-feather broiler, and hybrid broiler production. Ex-layer production will remain flat. Although chicken meat prices have recovered from historic lows in 2017, weak consumer demand and the abundance of substitute proteins continue to exert downward pressure on prices. However, currently, feed costs (which account for roughly 75 percent of the cost of production) are low as China continues to draw down its grain stocks and soybean stocks at crushing facilities are at or above average levels. Any significant decreases in the availability of corn and soybean meal in China may have a depressing effect on chicken meat production.

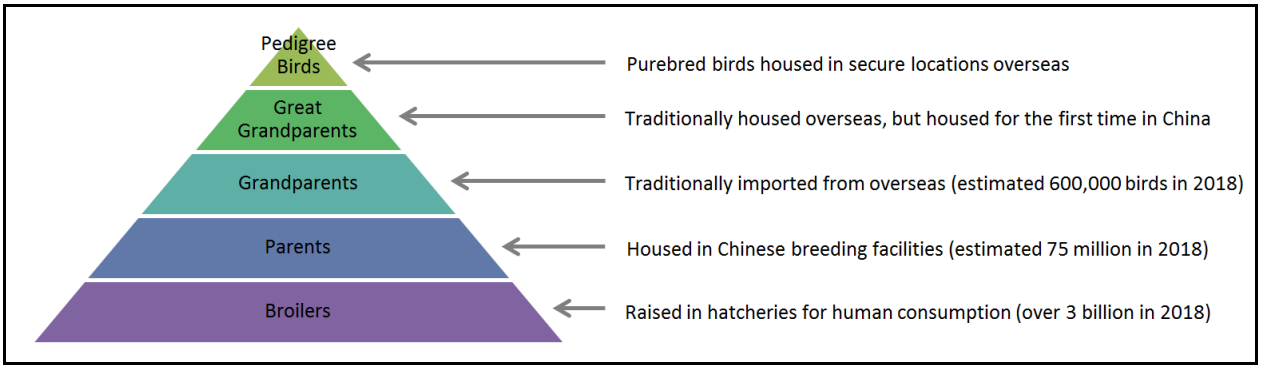


Source: Industry

White-feather production

The production increases forecast for 2019 are primarily attributable to increases in the white-feather broiler segment, which accounts for over half of all chicken meat production. The white-feather broiler industry has grown quickly in China due to increased demand for protein by Chinese consumers, especially in urban centers. In general, white-feather broilers are produced in western-style facilities that rely on imported genetics, carefully monitored feed rations, close veterinary monitoring, and stringent biosecurity measures. A well-maintained, modern production facility in China can achieve productivity levels comparable to western poultry producers.

Table 1: China's white-feather broiler "pyramid"



Graphic by FAS-Beijing using estimates from China Agricultural University

However, this industry has traditionally relied on imported genetics (at the grandparent generation) to maintain the health and productivity of its flocks. Since China's numerous AI bans against many traditional supplier countries (including the United States, Spain, the United Kingdom and France), this genetic replenishment has dropped off, suggesting that white broiler production would soon decrease significantly. While some domestic producers have reported significant under-capacity due to lack of new grandparent stock, overall, China's poultry industry has overcome this obstacle and will see an increased production in 2019.

China's strategy to mitigate the effects of limited genetic replenishment from overseas has been three-fold: 1) use forced molting to extend the productive life of the existing flocks, 2) increase the number of live-bird imports (for genetics) from New Zealand (one of the only remaining approved supplier countries), and 3) develop a domestic great-grandparent flock. In past reports, Post has reported about the widespread use of forced molting to extend the productive life of white-broilers. Industry reports that white-feather production faltered in 2018 due to increased mortality among its flocks due to the extended use of forced molting. However, in 2019, the practice of forced molting will be reduced, but not entirely eliminated, due to the introduction of new genetic material.

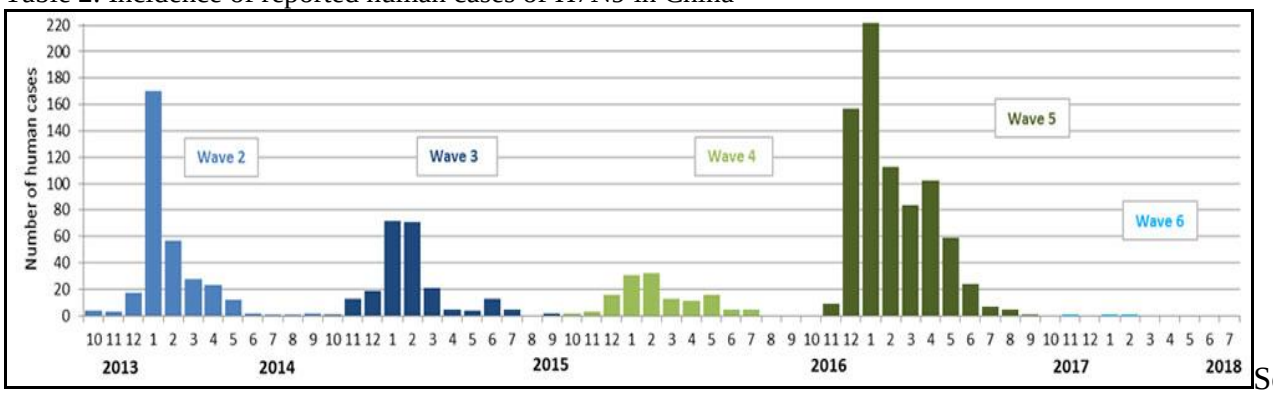
Live-bird imports from New Zealand have increased from 2017 to 2018 and will continue to grow in 2019. Recently, one of the largest U.S. producers Cobb-Vantress invested USD $40 million in a new breeding facility in New Zealand that will export great grandparent stock to supply its Chinese production facility in Hubei, along with other distributors in China.

Lastly, China seems to have overcome the technical challenges with maintaining a great grandparent flock. As Post reported in the past, China's Shandong Yisheng Livestock and Poultry Breeding Company acquired great-grandparent stock from Hubbard, France's largest poultry genetics company. Chinese industry has long pursued this type of arrangement in anticipation that overseas supplies of genetics were cut off—which has happened due to the Government of China taking action against countries with avian influenza.

Yellow-feather production

Yellow-bird production will slightly increase as well, but it is more nuanced. Production was down in the past two years because the massive H7N9 outbreak in 2016-2017 (shown as Wave 5 in Table 2 below) shook consumer confidence. With an H7N9-free year last year (Wave 6), consumer confidence is returning, leading to increased demand.

Table 2: Incidence of reported human cases of H7N9 in China



Source : FAO

China's mandatory poultry vaccination program is largely credited for the decrease in human illness during Wave 6. During the fall of 2017, China developed a bivalent H5/H7 vaccine and began piloting mandatory vaccination programs in Guangzhou and Guangxi. The program was eventually expanded nationally with the local agriculture department providing the vaccine for free and industry bearing the costs of administering the vaccine to each animal. The program is enforced by requiring vaccination records during transportation and through random farm inspections. Chinese officials report that vaccination coverage is greater than 80 percent.

However, the return of the yellow bird market is constrained by the stringent restrictions on live-bird markets, the primary marketing channel for yellow-birds. Many provinces have closed popular bird markets during peak flu season. Industry reports that it may take more than ten years to transition away from live bird markets to a more centralized slaughter and packing system.

Hybrid production

Hybrid broilers are a combination of white and yellow broilers that share characteristics from each. Hybrids are raised to slaughter weight more quickly and efficiently than yellow-feather broilers, but retain some of the traditional flavor and texture characteristics. This segment will continue to grow as poultry companies seek a balance between efficiency and consumer preferences.

Chicken Meat Consumption:

Post forecasts consumer consumption will increase by 2 percent in 2019 to 11.8 MMT, but demand will remain weak. Chicken is still the cheapest protein on the market, but experienced a loss in consumer confidence due to the H7N9 outbreaks two years ago. With virtually no instances of H7N9 infection in humans this year, the demand for poultry as an inexpensive protein is recovering, albeit slowly. In the past, poultry and pork were the dominant proteins due to their low cost and an increase in consumption for one generally meant a decrease for the other. However, in recent years, Chinese consumers have enjoyed a much broader selection of protein including beef, seafood, lamb, and duck. As a result, demand for chicken remains weak, despite its low cost.

The improvement in the cold chain sector may have a transformative effect on how chicken meat is consumed in China. Improvements would allow more chicken to be sold through modern supermarket and e-commerce channels.

Chicken Meat Trade:

Post forecasts chicken meat imports will decrease 7 percent in 2019 to 255,000 metric tons as a result of trade frictions between China and its largest poultry supplier, Brazil. In June, China's Ministry of Commerce (MOFCOM) began imposing a dumping deposit on Brazilian white broiler imports, which will likely slow overall imports.[1] However, because Brazil accounts for such a large supply of China's import market, it is unlikely that the any other countries will be able to fill that gap. To import poultry meat, the overseas facility must first register with China's Certification and Accreditation Administration (CNCA). In July of 2018, CNCA granted or restored access to Thailand (seven new frozen chicken facilities were added to the CNCA list in July), Poland (five new poultry facilities were approved by CNCA for frozen poultry meat imports in July), and Germany (China announced the lifting of the ban, but no new poultry facilities have been approved by CNCA yet). But even these new imports will likely not be able to fill the gap left by a decrease in Brazilian imports.

Post forecasts that exports will increase by 3 percent to 455,000 MT as China's overall production increases, demand remains weak at home, and exporters can offer increasingly competitive prices. The majority of the increased export demand will come from Japan and the European Union.

Policy:

Removal of AD and CVD duties

On February 27, 2018, MOFCOM withdrew Anti-Dumping & Countervailing (AD/CVD) duties on U.S.-origin broiler chicken that had been in place since 2010, stating that it "did not consider it necessary" to maintain the measures.[2] This announcement was in response to a January 18, 2018 WTO panel determination that the Chinese measures were not WTO-compliant. However, China continues to maintain an AI-based ban against U.S.-origin poultry and poultry products, despite the U.S. being cleared of HPAI since August 2017. USDA continues to request China follow guidelines set by the World Organization for Animal Health (OIE) and lift the ban to allow resumption of trade.

China imposes multiple retaliatory tariffs on U.S. agriculture, including poultry

On June 16, 2018, the People's Republic of China's Ministry of Finance (MOF), State Council Tariff Commission (SCTC) announced a revised list of U.S. products subject to an additional 25 percent tariff in response to the U.S. 301 Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.[3] The increased tariff on most chicken

[1] See FAS GAIN Report CH18032 for the MOFCOM announcement. Link here: https://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Announces%20Temporary%20Anti-Dumping%20Duties%20on%20Brazilian%20Poultry_Beijing_China%20-%20Peoples%20Republic%20of_6-15-2018.pdf

[2] See FAS GAIN Report CH18006 for more information. Link here: https://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Withdraws%20AD%20CVD%20Measures%20on%20U.S.%20Poultry_Beijing_China%20-%20Peoples%20Republic%20of_3-2-2018.pdf

[3] See FAS GAIN Report CH 18040 for more information.

meat (fresh and frozen) and chicken offals was to existing tariffs and entered into force on July 6, 2018. However, these tariffs will have a negligible effect since the AI-based poultry ban on U.S.-origin poultry is still in place.

Production Supply Demand Table for China:

Chicken Meat	2017	2018	2019
Beginning Stocks	0	0	0
Production	11600	11700	12000
Total Imports	311	275	255
Total Supply	11911	11975	12255
Total Exports	436	440	455
Human Consumption	11475	11535	11800
Other Use, Losses	0	0	0
Total Dom. Consumption	11475	11535	11800
Total Use	11911	11975	12255
Ending Stocks	0	0	0
Total Distribution	11911	11975	12255
(Units in 1,000 MT)			